



VCOSS Submission to

Contribution of the Not for Profit Sector

Productivity Commission Draft Research Report

November 2009

INTRODUCTION

The Victorian Council of Social Service (VCOSS) is the peak body of the social and community sector in Victoria. VCOSS works to ensure that all Victorians have access to and a fair share of the community's resources and services, through advocating for the development of a sustainable, fair and equitable society. VCOSS members reflect a wide diversity, with members ranging from large charities, sector peak organisations, small community services, advocacy groups and individuals in social policy debates.

VCOSS is committed to living out the principles of equity and justice, and acknowledges we live in a society where people are interdependent of one another. VCOSS respects the land we live in and recognises the Indigenous custodians of the country. VCOSS is committed to reconciling all injustices with Indigenous Australians. The VCOSS vision is one where social well being is a national priority, and:

- ❑ ensures everyone has access to and a fair share of the community's resources and services;
- ❑ involves all people as equals, without discrimination; and
- ❑ values and encourages people's participation in decision making about their own lives and their community.

VCOSS welcomes the draft report of the Productivity Commission and commends the comprehensive nature of the study. This is an important piece of research which highlights the significant value of the not for profit sector, its contribution to the Australian community and the challenges that need to be addressed to ensure the sustainable development of the sector into the future.

VCOSS supports the overall direction of the report and urges both commonwealth and state governments to work together to implement the reform agenda as a priority. Many of the recommendations in the report have been proposed in previous studies and inquiries such as the Senate Standing Committee on Economics inquiry into *Disclosure Regimes for Charities and Not for Profit Organisations* (2008), the *Report of the Inquiry into the Definition of Charities and Related Organisations* (2001) and Victorian specific reviews. It is time that governments at all levels acted on these recommendations and implemented a reform agenda to support and enhance the operations of the NFP sector.

VCOSS supports the pillars of reform outlined in the report:

- ❑ Building a better knowledge base;
- ❑ Smarter regulation of the not-for-profit sector;
- ❑ Realising funding opportunities for the sector;
- ❑ Facilitating social innovation and sector development;
- ❑ Sustaining the not for profit workforce;
- ❑ Improving the effectiveness of direct government funding;
- ❑ Removing impediments to better value government funded services; and
- ❑ Building stronger, more effective relationships for the future.

While we believe that the recommendations should be implemented as part of a whole package, we recognise that not all recommendations can be implemented at once. The Federal Government needs to develop an implementation plan in consultation with state governments. This plan should include a timetable of action and key milestones.

VCOSS highlights several recommendations which should be implemented as matter of priority as they will drive other recommendations. In particular it is important to develop the structures that will coordinate the implementation of the reform package. Therefore, we believe that the recommendations of key priority include:

- ❑ Establishing the National Registrar for Community and Charitable Purpose Organisations; and
- ❑ Establishing the Office for Not for Profit Sector Engagement.

Once these structures are in place, the focus can move to other important developments, including:

- ❑ Introducing a national legislative framework for the incorporation and regulation of incorporated associations and companies limited by guarantee;
- ❑ Adopting the statutory definition of charitable purposes;
- ❑ Extending the scope of gift deductibility;
- ❑ Developing a measurement framework;
- ❑ Developing a Centre for Community Service Effectiveness;
- ❑ Improving the effectiveness of government funding; and
- ❑ Developing a holistic workforce plan.

This submission responds to many of the recommendations and questions proposed by the Productivity Commission in relation to community sector organisations (CSOs).¹ We do not consider every recommendation or question but those that have been raised by members and stakeholders as particular issues or where we can draw on Victorian specific examples. We also highlight sections of our response to the *Contribution of the Not for Profit Sector Issues Paper* to reiterate recommendations VCOSS made in the initial stages of the study.

The Australian Council of Social Service (ACOSS) has developed a response to the report from a national perspective and VCOSS endorses the ACOSS response.

VCOSS would welcome further opportunities to discuss any elements of this submission with the Productivity Commission. We would also welcome opportunities to work with the Commonwealth and Victorian Governments during the implementation phase.

BUILDING A BETTER KNOWLEDGE BASE

5.1 The Australian Government should initiate an Information Development Plan (IDP) for the not-for-profit sector. Given its central role in providing data on the sector, and its legislated responsibility for statistical coordination, the Australian Bureau of Statistics should be given responsibility for formulating the IDP, consulting other key stakeholders as appropriate. Among the issues the IDP should address are:

- ❑ **the appropriate frequency for publication of the satellite account on the sector and the scope for expanding measurement in the satellite account beyond economically significant entities;**
- ❑ **the scope to improve administrative and other longitudinal data sets to support analysis of net impacts of sector activities; and**
- ❑ **the feasibility of obtaining accurate estimates of the number of unincorporated not-for-profit organisations in a cost-effective manner.**

VCOSS supports the development of an Information Development Plan by the Australian Bureau of Statistics. The focus of the plan should be to improve government and community sector organisation (CSO) policy setting, service planning and delivery.

VCOSS believes there is merit in valuing the contribution of the CSO sector at a macro (industry) level as part of the National Accounts and supports the continued development of the NFP Satellite Accounts.

As raised in our response to the *Issues Paper*, current data collection and dissemination systems do not allow government or the sector to map service provider networks, service delivery activity or funding on a regional basis (i.e. there is no simple way of identifying who is working in a geographic areas on what issue areas with what target groups). Nor is there a readily accessible system that provides government or the CSO sector with data on community needs (based on key socioeconomic indicators) by geographic region other than aggregated Indices such as the Socioeconomic Indexes for Areas (SEIFA) Indices or tools such as those provided by Community Indicators Victoria.

In order to address these gaps and improve the effectiveness and efficiency of both the government and CSOs there is a real need to focus on improving basic data collection. In particular, there is a need to focus on:

- ❑ improving the accessibility of data to assist governments and CSOs identify community and target group needs at a regional level;
- ❑ improving the collection and dissemination of data at a regional level regarding:
 - ❑ what activity is being undertaken by the CSO sector;
 - ❑ what funding is being invested (including both government and non-government funding); and
- ❑ tracking changes in community needs, activity and investment over time.

In addition to improving data collection mechanisms and dissemination, it is vital that the data collection mechanisms that CSOs are required to use by multiple departments and levels of governments are streamlined and interlinked as part of the IDP. This would assist to reduce administrative complexity and duplication for CSOs and improve data quality.

The IDP should also utilise the myriad of both existing and longitudinal data collection systems available to further measure the contribution of the sector in the future. This includes data sets such as the Household, Income and Labour Dynamics in Australia (HILDA) Survey or the Longitudinal Study of Australia's Children (LSAC).

5.2 Australian governments should endorse a common framework for measuring the contribution of the not-for-profit sector. Having regard to the diversity of the sector's activities and structures, measurement using this framework should embody the principles of proportionality, transparency, robustness, flexibility, and applicability. To the extent possible, evaluations should be used to help identify the contributions, especially in respect of the impacts on individuals and the community, and inform the development of data collections.

VCOSS supports the development of a framework for measuring the contribution of the NFP sector. This framework should be developed by the proposed Office for Not for Profit Sector Engagement in collaboration with the not for profit sector to ensure the framework adequately captures the complexity and diversity of the sector's work.

As VCOSS highlighted in its submission to the *Issues Paper*, there is value in developing a core set of specific output and outcome indicators that can be used by government and CSOs to monitor and evaluate CSO activity at a program and community level. However, it is important to recognise that any such set of output and outcome indicators will not be able to cover the full suite of outputs and outcomes that are delivered by CSOs and so will not measure the full contribution of the sector.

VCOSS welcomes the inclusion of outputs, outcomes and impacts in the framework given measurement has previously tended to focus on inputs or on purely economic outputs. VCOSS also supports the addition of 'spillover' impacts to capture the additional contributions of the sector where work in one domain leads to outcomes in another. Spillover impacts will be difficult to measure as noted in the report. It is important that funding bodies value these impacts in measuring the outcomes of service delivery.

VCOSS submitted an analysis of measurement frameworks and the work of CSOs in our response to the Productivity Commission's *Issues Paper*. These chapters are again provided in Appendix 1 to reiterate the need for the framework to:

- ❑ measure individual program effectiveness and efficiency;
- ❑ inform program design and development; and
- ❑ support the comparison of alternative service providers and support service provider selection or funding allocation.

VCOSS also notes that the *Draft Report* makes little reference to the information technology capacity of NFP organisations. Significant consideration needs to be given to the resources required to support the collection and processing of data that will assist the implementation of measurement and evaluation models. Information technology (IT) system capacity and capability constraints within the CSO sector (including resource, data management, IT and skill gaps) inhibit the ability of many CSOs to collect, process and analyse program data. Funding for ICT must be considered as an integral part of granting and contract arrangements.

5.3 To minimise compliance costs and maximise the value of data collected, Australian governments should agree to implement a reform agenda for reporting and evaluation requirements for not-for-profit organisations involved in the delivery of government funded services. This should:

- commit to basing reporting and evaluation requirements in service delivery contracts on a common measurement framework (appropriately adapted to the specific circumstances of service delivery);**
- require expenditure (input) measures to be based on the Standard Chart of Accounts;**
- ensure that information generated through performance evaluations are returned to service providers to enable appropriate learning to take place and for organisations to benchmark their performance; and**
- embody, where practicable, the principle of ‘report once, use often’.**

VCOSS supports the development and implementation of a reform agenda for reporting and evaluation as outlined in the recommendation above. VCOSS strongly supports the ‘report once, use often’ principle to limit the duplication in reporting which currently exists, and the sharing of information back to agencies to assist learning.

VCOSS supports greater evaluation within the sector. The *Draft Report* acknowledges the current funding restraints that often prevent evaluation at a program or agency level. VCOSS supports recommendations throughout the report that promote the importance of evaluation and we believe that funding should be included as part of all funding agreements to assist agencies to develop evaluation processes.

It is recommended that existing federal, state and local government program reporting requirements and systems be reviewed to:

- move towards the adoption of a common set of output and outcome measures for like programs;
- streamline data collection and reporting requirements (including the adoption of common IT packages or systems); and
- reduce duplication in cross-government and cross-departmental reporting.

VCOSS recommends that all levels of government invest in the information technology (IT) infrastructure and data management systems and skills that CSOs require to collect, process and analyse program data for evaluation purposes.

5.4 The Australian Government should provide funding for the establishment of a Centre for Community Service Effectiveness to promote ‘best practice’ approaches to evaluation, with an initial focus on evaluation of government funded community services. Over time, funding could also be sought from state/territory governments, business and from within the sector. Among its roles, the Centre should provide:

- a publicly available portal containing evaluations and related information provided by not-for-profit organisations and government agencies;**
- guidance for undertaking impact evaluations; and**
- ‘meta’ analyses of evaluation results.**

VCOSS supports the establishment of an independent Centre for Community Service Effectiveness to promote best practice in evaluation as described. We also see a role for peak bodies to promote sector specific evaluation approaches as peaks already play an important role in supporting sector development. We recommend that the

Centre for Community Service Effectiveness work closely with sector peak bodies to ensure that evaluation methodologies are appropriate for different sectors and to develop and implement appropriate training for CSOs so that evaluation techniques are implemented at an agency level and used to inform and improve program delivery. It is important that evaluation learnings are publicly accessible to ensure NFPs can learn from evaluations in building future programs. VCOSS also believes there is potential in extending Australian Research Council grants to include an evaluation of initiatives funded by ARC.

SMARTER REGULATION OF THE NOT FOR PROFIT SECTOR

6.1 The Australian Government should establish a Commonwealth incorporated association's legal structure for not-for-profits. The new legal structure would assist not-for-profits, in particular those operating across state and territory boundaries, that do not wish to be companies limited by guarantee but wish to be incorporated at the Commonwealth level. Australian governments should ensure that incorporation legislation is amended to allow not-for-profits to migrate from one form of legal entity to another and to migrate between jurisdictions. State and territory governments should continue to reduce unnecessary compliance requirements for incorporated associations.

VCOSS agrees that the multiplicity of State, Territory and Commonwealth Acts regarding incorporation is fragmented, inefficient and unnecessarily complex for not for profits, however VCOSS does not believe the establishment of a third structure will reduce this complexity. The sector requires a single legal structure that allows an organisation to operate state based or nationally, with proportionate reporting requirements, fees and penalties based on size.

As recommended by the Senate Standing Committee on Economics in 2008,² VCOSS supports the introduction of one national legislative framework for the incorporation and regulation of incorporated associations currently under state regulation and companies limited by guarantee. This framework would provide for NFP organisations of varying types and sizes. This would be achieved by referral of power from the state to the Commonwealth. VCOSS urges the Victorian Government to refer its powers relating to incorporated associations given the benefits this would provide to our membership.

A national Associations Act would allow all current guarantee companies and state incorporated associations to become national incorporated associations. There would also be provision for those cooperatives that wished to migrate to the new national Associations Act. This Act would work in conjunction with a Commonwealth Act establishing a national regulator. Existing incorporated associations would migrate to the new Act and there should be a deeming provision to provide for their automatic transfer to any new national regime

For those NFPs incorporated as companies limited by guarantee, we support the PilchConnect recommendation in its response to the *Issues Paper* that the:

best approach would be to have an 'opt-out' scheme so that they would be deemed to be transferred to the new NFP structure unless they could, in effect, show some reason why the new regime would not suit their particular type of organisation. An opt-out option may not even be necessary if the new legal structure legislation is contained as a separate part of the Corporations Law – that is, as is currently the case, a company can (subject to member or shareholder approval) change between most other types of companies quite easily.³

The legislation would recognise the specific requirements that should apply to the governance, management and accountability of not-for-profit organisations. Reporting requirements under the act would be proportionate to the size of the organisation. For example, smaller organisations would have to complete basic annual reporting such as

submitting a copy of the association's financial statements. Filing fees should be modest and again, a sliding scale based on size should be introduced.

VCOSS argues that the current *Corporations Act* is not an appropriate vehicle for the registration and regulation of not-for-profit organisations. The Act was not intended to regulate NFPs but was developed primarily for profit companies. It is a complex and lengthy piece of legislation with most provisions irrelevant to NFPs. In addition, many of the requirements of the *Corporations Act* are unduly restrictive for NFPs such as the annual auditing requirements.

The *Draft Report* seeks comment on whether state and territory based incorporation should be restricted to not for profits with income less than \$150,000 per annum. VCOSS does not support the introduction of a two-tier system, with smaller associations remaining incorporated under state Associations Incorporation Acts, and larger associations being required to incorporate under the *Corporations Act*. VCOSS contends that large incorporated associations do not necessarily have more in common with profit-making bodies than they do with other NFP organisations. The level of income or assets of an organisation should not be an issue, but rather that the organisation meets the criteria of a not-for-profit organisation.

6.2 To promote confidence in the not-for-profit sector and reduce regulatory burden, Australian governments, initially through the COAG Business Regulation and Competition Working Group, should:

- agree to and implement harmonised fundraising regulation and mutual recognition across Australia;**
- support the development of a fundraising register for cross jurisdictional fundraising organisations, to be administered by the proposed national Registrar;**
- endorse the adoption by all governments of the Standard Chart of Accounts for reporting by not-for-profits in receipt of government grants or service contracts; and**
- ensure that the Standard Business Reporting initiative be expanded to include reporting requirements by not-for-profits.**

VCOSS supports the introduction of a single national fundraising Act which would cover all forms of fundraising by NFPs. National fundraising law would be overseen by the proposed independent national Registrar for Community and Charitable Purpose Organisations.

We support the Senate Standing Committee on Economics recommendation that a National Fundraising Act needs to include the following minimum features:

- it should apply nationally;
- it should apply to all organisations;
- it should require accounts or records to be submitted following the fundraising period with the level of reporting commensurate with the size of the organisation or amount raised;
- it should include a provision for the granting of a license; and
- it should clearly regulate contemporary fundraising activities such as internet fundraising.⁴

VCOSS supports the recommendation of the COAG Business Regulation and Competition Working Group to endorse the Standard Chart of Accounts for NPF

reporting. We welcome developments in Victoria where a Victorian Chart of Accounts is almost complete and believe this work should be rolled out nationally as a priority.

In addition, VCOSS contends that a NFP-specific accounting standard is also required. A requirement by regulators and grant makers for reports based on such a standard would provide much-needed consistency to the reporting process.

6.3 The Australian Government should adopt a statutory definition of charitable purposes in accordance with the recommendations of the 2001 Inquiry into the definition of charities and other organisations.

VCOSS strongly supports the recommendation to reform and modernise the definition of charity in line with the 2001 *Inquiry into the Definition of Charities and Other Organisations*.

In particular, we support the adoption of Recommendation 13 of the Charities Inquiry to allow for the inclusion of organisations that focus on ‘the prevention and relief of poverty, distress or disadvantage of individuals or families’.

The definition of a Public Benevolent Institution (PBI) should be amended to include the word ‘prevention’. As suggested by the Association of Neighbourhood Houses and Learning Centres, this amendment would appear in the Australian Tax Office publication Giftpack for DGR and Donors under the category ‘Welfare and Rights’ in the following way:

A Public Benevolent Institution is a non-profit institution organised for the direct relief or prevention of poverty, sickness, suffering, distress, misfortune, disability or helplessness.’

VCOSS also restates our submission to the *Issues Paper* regarding the advocacy and charitable status. We contend:

The law places constraints over the extent to which a charity may engage in advocacy activities and receive charitable status. Under a complex set of rules, NFPs whose *primary purpose* is legislative change cannot be granted charitable status. However, NFPs seeking legislative change that is *incidental to or helps further* other charitable purposes may be granted charitable status.

Charities that engage in advocacy to benefit the groups or communities they serve play an important role in policy development and public debate. Judgments have failed to make a crucial distinction between engaging in public debate as a means to achieving a charitable purpose and political activity generally.

VCOSS recommends that charity law be reformed to allow “NFP organisations with a dominant purpose that is charitable, altruistic and for the public benefit to be able to engage partly or entirely in advocacy for public policy reform in support of that purpose, while at the same time (a) meeting the requirements of a charity and (b) being able to qualify as a PBI”.⁵

6.4 The Australian Government should establish a one-stop shop for Commonwealth regulation by consolidating various regulatory functions into a new national Registrar for Community and Charitable Purpose Organisations with the following key functions to promote confidence in the not-for-profit sector:

- register and regulate Commonwealth incorporated associations, companies limited by guarantee and Indigenous corporations;**
- register and endorse not-for-profits for commonwealth tax concession status;**
- registration of cross-jurisdictional fundraising by not-for-profit organisations;**
- a single reporting portal for public record corporate and financial information, proportionate to the size and scope of functions of not-for-profit organisations;**
- provision of appropriate governance education; and**
- complaints handling.**

VCOSS supports the establishment of a national Registrar for Community and Charitable Purpose Organisations with the functions outlined in the recommendation (taking into account our response to recommendations 6.1 regarding legal forms). Given this Registrar will play an important role in overseeing the introduction of a national regulatory framework including fundraising, incorporation, data collection and reporting, VCOSS believes this recommendation should be enacted by the Federal Government as a key priority as many other reforms regarding taxation, fundraising, reporting etc will stem from the work of this office.

VCOSS supports a national independent regulator that is established as a separate entity under the Financial Management and Accountability Act 1997. This would have the advantage of being a specialist body designed to meet the unique needs of the NFP sector.

VCOSS does not believe the Registrar should be established as a division of the Australian Securities and Investments Commission (ASIC). ASIC is not best placed to be the regulator for the NFP sector as its primary focus is on the for-profit sector which poses very different challenges to the regulation of NFPs.

Although establishing this body as a separate entity will require new government funding, we submit that additional funding would also have to be allocated even if the body was to be set up within ASIC as it would need to engage specialist staff. Any additional funds will be offset by the more efficient regulation of the NFP sector. We support the PilchConnect's submission to the *Issues Paper* that any expenses involved in establishing and financing a new independent NFP regulator can be minimised by:

- exploring the use of ASIC's online data collection, storage and searching practices;
- cost sharing with the States because of savings achieved by no longer needing separate regulators in each State and Territory;
- cost savings achieved by fewer staff required in the Australian Taxation Office (ATO), whose role will be to apply revenue laws rather than determine eligibility;
- cost saving to the NFP sector by a reduction in red tape and, therefore, greater capacity and efficiencies in delivery by NFPs of publicly funded services.⁶

REALISING FUNDING OPPORTUNITIES FOR THE SECTOR

7.2 Subject to considerations of affordability, the Australian Government should widen the scope for gift deductibility to include all charitable institutions and charitable funds as endorsed by the proposed national Registrar.

VCOSS supports the recommendation for expansion of Deductible Gift Reciprocity (DGR) tax endorsement for NFPs working to prevent disadvantage as well as alleviating it. VCOSS believes that the range of NFPs requiring formal endorsement for Commonwealth tax concessions should be expanded to include NFPs who engage in preventative strategies to address disadvantage.

However, VCOSS does not support blanket DGR endorsement for all organisations engaged in community development. Applicants should still be required to meet all other aspects of the current PBI criteria in order to be eligible for DGR.

VCOSS recommends rationalising the categories of charity, public benevolent institutions and other NFPs. VCOSS supports a three tier classification structure upon which government regulation and access to tax and other concessions could be based, as proposed by the Charities Inquiry 2001.⁷ The Government must establish how each category of not-for-profit should be treated in relation to the various types of concessions available at the federal and state levels within a consistent and clearly articulated framework. VCOSS believes that the most generous concessions, such as FBT Exemptions and DGR Status, should be restricted to Benevolent Charities.⁸

This recommendation should not be 'subject to affordability'. As the reform is seeking to encourage giving to expand non-government funding opportunities to the sector, this recommendation should be enacted as one of the priority areas.

7.4 The Australian Government should establish a joint working party made up of representatives of the not-for-profit sector, business, philanthropic and other government to explore obstacles to not-for-profits raising capital and evaluate appropriate options to enhance access to capital by the sector.

While VCOSS supports the establishment of a joint working party to consider capital, this working party should not be limited to 'exploring' obstacles. These obstacles are well documented. The Joint party should be established to consider new and existing models which can be developed to enact reform.

In our submission to the *Issues Paper* we proposed initiatives such as:

1. Low interest loan schemes

It is recommended that the Federal Government investigate options to incentivise or support commercial banks to provide CSOs with access to low interest loans to fund investments in infrastructure, system and capability development. In order to increase the preparedness of banks to participate in such a scheme it is recommended that the Federal Government:

- Review taxation laws to incentivise the provision of low interest loans; and
- Investigate the option of allowing Prescribed Private Funds (PPF) holders to invest their funds in a NFP Low Interest Loan Guarantee Fund on the basis that

those funds be able to be drawn on by commercial lenders to offset low interest loan defaults and thereby reduce the risk associated with the issuing of such loans.

2. Establish a 'Future Fund' to support NFP organisational capacity development

It is recommended that the Federal Government consider establishing a 'Future Fund' for the NFP sector that could be used to fund ongoing capability development in the NFP sector. Such a fund could be established with the support of the philanthropic and commercial sector by applying a matching grant arrangement and / or allowing PPF holders to invest funds in the Fund.

VCOSS also submits that the work of the Joint Working Party should specifically consider capital in growth areas where there is increasing demand for community services but few services available. Capital should also be considered in emerging priority areas of government policy. For example, governments at both a state and commonwealth level have expressed a policy commitment to the provision of integrated child and family services, particularly on school grounds. As a result, significant capital has been allocated to assist in the development of these facilities. This commitment to providing capital should be introduced across all areas of government policy.

SUSTAINING THE NOT-FOR PROFIT WORKFORCE

10.1 Australian governments should explore the feasibility of establishing a system of 'Working with Vulnerable People Checks' similar to that proposed by the ACT. These checks should be portable between organisations for a designated time period.

VCOSS believes that the process of criminal record checks should be streamlined, particularly in relation to lowering the cost of volunteers. In Victoria we have seen the introduction of Working with Children Checks. While these checks have been generally welcomed, many volunteers still require police checks as the Working with Children Check only considers a specific set of criminal activities. If a Working with Vulnerable People Check was introduced, VCOSS recommends that the scope of such a check be developed in consultation with CSOs and peak bodies, to reflect the requirements of the sector. It is also important to note that police checks are often a legislative requirement, so it is important that any new Check is compliant with such requirements. This will assist in ensuring there is no duplication in checks at state and national levels.

In addition, VCOSS directs the Commission to the CrimCheck, an automated police record check system for the not-for-profit sector in Victoria which provides a model of streamlined police record checks in Victoria.

10.2 In order to ensure that not-for-profits can sustain their workforces, Australian governments purchasing community services need to base funding on relevant market wages for equivalent positions. Costings need to take into account the skill sets required to perform the purchased services and be indexed appropriately to market wage growth within that industry sector.

VCOSS has long called for reform to remuneration levels in the community sector to achieve pay parity with the public sector. As such, VCOSS strongly supports the recommendation for governments to base funding on relevant market wages and skill sets. VCOSS has welcomed the Federal Government's commitment to support the historic test case on pay equity for community sector employees under the new Fair Work system. VCOSS will advocate for state and territory governments to fund the outcomes of the case to ensure wage increases for community sector employers.

10.3 The Australian Government, through the Community Services and Health Industry Skills Council, should undertake workforce planning for the community services sector having regard to the current and future workforce challenges arising from growing demand and increasing supply constraints

The challenges associated with workforce recruitment, retention and capability in the sector have been comprehensively covered in the *Draft Report*. VCOSS believes that there are a number of structural issues that need to be resolved to address current workforce shortages and meet predicted future demand for suitably qualified and experienced community sector workers. We support the development of a long-term, holistic workforce strategy to drive reform on community sector workforce challenges.

VCOSS recommends that the workforce strategy include a review of training courses relevant to the community sector to better align curriculum with CSOs skill set

requirements, and that this review be undertaken in consultation with the sector. VCOSS also recommends that the Federal Government encourage greater collaboration on an ongoing basis between the CSO sector and training providers on this issue to ensure any reforms meet the needs of both CSOs and training providers.

10.4 Australian governments should provide support to develop and promote training for not-for-profit management and boards in governance and related areas. They should explore the options for improving access to and quality of such training in these areas with peak bodies and appropriate training providers.

VCOSS strongly supports the recommendation that governments support services that provide support and information to CSOs on available, low cost training opportunities across academic, government, non-profit and business sectors. This includes the provision of core, recurrent funding. The experience of VCOSS in sector development needs analysis strongly supports the Commission's view that, *"staff training expenses are often not regarded by funding bodies, nor the public, as an essential part of service delivery. ...many NFP employers do not sufficiently invest in training their staff."* (page 10.1). This is not due to lack of desire to do so, rather, commercial full-cost training and development is out of their financial reach.

The work of the VCOSS Training and Development Clearinghouse (the Clearinghouse) is a good example of a mechanism to facilitate access to free and low cost training opportunities for a variety of sectors. The Clearinghouse actively seeks out and brokers training opportunities for CSOs across business, academic and NFP sectors, simplifying the process of 'giving back' for both philanthropic and business partners, and enabling a one-to-many impact of the time and funds donated (see example below). This is a very significant advantage as many small and medium sized CSOs are unable to invest in developing and sustaining individual partnerships with business and philanthropy. The Clearinghouse uses a web-based information hub to communicate information and match training needs with opportunities. A recent KPMG evaluation of the Clearinghouse cites a leverage of \$3 in-kind contribution for every \$1 invested in the service.

The Clearinghouse works closely with pro-bono brokers and other support organisations, such as PilchConnect, to:

- share knowledge in regards to sector needs;
- better enable a coordinated response to emerging issues;
- avoid duplication of effort; and
- maximise the impact of the program to the sector.

Again VCOSS notes that there is limited discussion in the report on the information and communications technology (ICT) capacity of the sector. Sector under-development in this area is a significant constraint on efficiency. In many areas, this is further hampered by the sector's vulnerability to the varying and changing priorities of government IT requirements and their frequently cumbersome and duplicated data gathering systems. The Doing IT Better project and other sector development experience of VCOSS highlights high levels of interest in ICT information and requests for support from CSOs.

VCOSS Training and Development Clearinghouse example

The Australian Institute of Management (AIM)

Through the *Just In Time* agreement, managed through the VCOSS Training and Development Clearinghouse, the Australian Institute of Management (AIM) provides free training opportunities to VCOSS member organisations with an annual income of less than \$500,000 in the form of places on their short courses. Through this partnership, VCOSS members have accessed 140 training opportunities, worth a total of \$175,840 since the beginning of the project.

These places provided 262 days of training to 85 different community sector organisations that could not otherwise have afforded to attend. Places were offered in 57 different courses addressing a wide range of community sector organisations' training needs, including management, communication, presentation, leadership, human resources and interpersonal skills.

In May 2008, AIM provided four scholarships to their Diploma of Business (Intensive) and Diploma of Management (Intensive). VCOSS took responsibility for the management of the scholarship process, including promoting the opportunity, calling for applications and short-listing and selecting appropriate recipients. VCOSS' commitment to AIM to take on this administrative work allows AIM to continue and expand their contribution to the sector.

IMPROVING THE EFFECTIVENESS OF DIRECT GOVERNMENT FUNDING

11.1 Australian governments should, in the contracting of services or other funding of external organisations, determine and clearly articulate whether they are fully funding particular services or activities undertaken by not-for-profits, or only making a contribution towards the associated costs and the extent of that contribution.

Australian governments should fully fund those services and activities that they would otherwise provide directly. In applying this criterion, governments should have regard to whether the funded activity is considered essential, as part of the social safety net or an entitlement for eligible Australians.

VCOSS strongly supports the recommendation that government funds the full cost of service delivery and / or provide dedicated funding for the core operations of organisations where government would otherwise provide the service directly.

For community sector organisations to provide high quality services and supports, it is essential they are funded at levels that reflect the full cost of quality service delivery. International research indicates this is rarely the case, with funding typically covering only the direct costs of service provision.⁹ The shortfall is met by organisations themselves by underwriting additional costs or through sourcing philanthropic and other donations. Partial funding does not promote long-term viability and also limits investment in long-term workforce skills development and wages growth. This recommendation is critical to promote the long-term sustainability and growth of the NFP sector.

11.2 For new or significantly changed services or activities, Australian governments should undertake an independent costing exercise to determine their full cost. This costing should take all relevant costs into account in assessing the minimum cost for effective provision of the specified quality of service or activity. This would not preclude the scope for government to set the fixed fee for service or user contribution.

VCOSS supports this recommendation. As stated in our response to the *Issues Paper*, VCOSS believes that the Federal Government should conduct pricing reviews and develop pricing frameworks at state and national levels. These reviews need to incorporate the following costs in addition to service delivery costs:

- financial and accounting systems;
- human resource development and training (paid staff and volunteers);
- infrastructure development and maintenance;
- compliance, quality assurance and evaluation;
- knowledge and data management;
- development and maintenance of CSO networks;
- development and maintenance of partnering arrangements; and
- community strengthening and engagement activities.

In Victoria, the issue of partial funding has been recognised by the Department of Human Services (DHS) with the development and adoption of a Price Review

Framework to identify the full cost of services, and to assess options for full and partial funding, as well as other contributions to the costs of service delivery. The framework includes:

- ❑ guiding principles for price review;
- ❑ factors to take into account to agree to a price review;
- ❑ price review methodology;
- ❑ a schedule of DHS programs and outputs with their price review status listed;
- ❑ a price review tool which includes a cost analysis table; and
- ❑ a pro-forma for monitoring the price review process.

VCOSS has welcomed the development of the DHS Price Review Framework, however the price review process has identified unresolved problems that continue to threaten the sustainability of critical health and community services. VCOSS remains concerned that while significant resources are dedicated to the reviews, there is no guarantee that full funding for the pricing outcomes of completed price reviews will be provided by government. This leads to a real risk that services will be reduced as a result.¹⁰ At a time when demand for services is increasing, further service rationing will only undermine outcomes for vulnerable Victorians and compromise productivity.

Funding must also account for annual indexation, based on movements in the Wage Price Index (WPI) and movements in the Consumer Price Index (CPI), to allow CSOs to meet labour and operating costs. Indexation assists in ensuring the value of the base price is not eroded over time. Without adequate indexation, the funds allocated at the beginning of a funding agreement will not be of an equivalent value over the life of the agreement and organisations will need to reduce the level of service delivery or subsidise government funding with other sources of funding. This availability of this latter option has been reduced following the impacts of the recent global financial downturn on both CSOs' investment returns and the availability of philanthropic grants.

VCOSS recommends that the Federal Government develop a mechanism to determine annual cost increases to ensure that the funding CSOs receive keeps pace with costs at both state and federal levels.¹¹

11.3 Australian governments should ensure that service agreements and contracts include provision for reasonable compensation for providers for the costs imposed by changes in government policy that affect the delivery of the contracted service, for example, changes to eligibility rules, the scope of the service being provided or reporting requirements.

As stated in 11.2, VCOSS supports the introduction of full funding for CSOs that are delivering services and activities that government would otherwise undertake directly. This would include covering the costs imposed by changes in government policy that may impact on the delivery of the contracted service.

VCOSS believes that services agreements and contracts should be based on a premise of full cost recovery. Full cost recovery implies recovering the full costs of service delivery and encompasses all costs directly associated with the program, along with the broader organisational and operational costs that are imperative to the program.¹²

11.4 That a principle of Australian governments' funding service provision or making grants is that they should respect the independence of funded organisations and not impose conditions associated with the general operations of the funded organisation, beyond those essential to ensure the delivery of agreed funding outcomes.

VCOSS strongly supports this recommendation. It is important that all levels of government only set requirements that relate to the delivery of programs funded by government. Governments should not impose on the independence of organisations in relation to governance issues, programs funded through other sources or the advocacy work of CSOs.

REMOVING IMPEDIMENTS TO BETTER VALUE GOVERNMENT FUNDED SERVICES

12.1 Australian governments should ensure that they choose the model of engagement with not-for-profits that best suits the characteristics and circumstances of the service being delivered. In choosing between alternative models of engagement, governments should consider: the nature of the outcomes sought, the characteristics of clients, and the nature of the market. In particular:

- ❑ **there should be no presumption that the purchaser-provider model will always be the most appropriate model;**
- ❑ **where governments are seeking the delivery of a clearly defined outcome and markets are genuinely contestable the purchaser-provider model should remain the preferred approach; and**
- ❑ **where truly competitive markets develop and clients face real choice in the services available to them, governments should consider moving to client-directed service delivery models. This transition should be conditional upon there being appropriate safeguards in place to protect and empower vulnerable clients (or their carers) in exercising choice and ensure an acceptable minimum level of service quality and provision.**

VCOSS supports the recommendations and perspectives detailed in the ACOSS submission in relation to recommendation 12.1.

It is also vital that governments learn from the experiences of past public policy decisions, such as opening up the child care market to private for-profit provision through the removal of operational subsidies and the introduction of Child Care Benefit. This not only led to the corporatisation of children's services, but also to the ultimate demise of ABC Learning Centres, resulting in the closure and reduction of many services.

VCOSS supports the introduction of client-directed service delivery models. In Victoria, the shift to individualised support packages for people with disabilities will see the creation of exciting new opportunities for people to have more control over the services they use. However this policy shift may also bring along with it the risk of exploitation by unscrupulous service providers and requires a series of focussed investments, such as the suggested safeguards, to support the provision of services delivering genuine choice and opportunities.

12.2 Where a market-based approach is not feasible or appropriate, governments should use other models of engagement. This may involve governments entering into either extended life or short-term collaborative relationships.

VCOSS encourages governments at all levels to continue to explore other models for engagement with NFP organisations. Effective collaborative arrangements between CSOs and government are critical to improving the delivery and outcomes of community services. These relationships must be mutually beneficial and meaningful to the sector.

Collaborative relationships provide enough flexibility to be either long-term or time-

limited, can be between multiple stakeholders and can enable models of integrated services delivery to be developed and implemented. Integrated service delivery promotes improved outcomes for clients, CSOs and government.

Collaborative relationships are at the core of public policy in Victoria, for example Primary Care Partnerships, Child FIRST Alliances and the redesign of child and youth mental health services as part of the *Victorian Mental Health Reform Strategy*.¹³ There is a greater emphasis placed on cooperation and collaboration in planning and service delivery by organisations to achieve improved service system coordination. This model of engagement can yield significant benefits to the integrated planning of policy, procedures and systems which is in the interests of those accessing services, and ultimately provide more effective services and supports to vulnerable Victorians.

It is important to recognise that there is a spectrum of partnerships and networks that lie along a 'continuum' with progression based on the degree of commitment, change required, risk involved, levels of independence, power, trust and a willingness to share 'turf'. In our response to the *Issues Paper*, we stated that different types of partnerships and collaboration are required to achieve different outcomes and each have different resource requirements. This needs to be better understood by government in planning, developing and resourcing alternative models of engagement with CSOs.

VCOSS strongly supports a focus on the development of diverse models of engagement, including collaborative relationships between CSOs and government. The development of formal agreements between government and CSOs should be considered as one way to inform the development, implementation and sustainability of collaborative models.

Since 2002 there have been three, three-year partnership agreements between the Department of Human Services (DHS) and the health, housing and community sector, with the most recent Memorandum of Understanding (MoU) committing to this work from June 2009 to July 2012. This agreement covers CSOs funded by the DHS. The MoU focuses on the need for a relationship based on trust, respect and collaboration and an agreement of a common vision, values and goals. The MoU reinforces the need for a shared approach to developing more effective relationships and working arrangements between DHS and the community sector.

The MoU is signed by the Secretary of DHS and by the Victorian Council of Social Service on behalf of health, housing and community sector organisations. To support and sustain the implementation of the MoU, VCOSS and the DHS co-chair the Human Services Partnership Implementation Committee (HSPIC), which is the overarching governance structure for the MoU. HSPIC is comprised of a range of representatives from the Department of Human Services and the community sector.

HSPIC's work plan is informed by matters of mutual interest and addresses areas of sector sustainability, partnership promotion and collaborative work to improve business processes, tools and practices to ensure high quality and responsive services. Examples of work undertaken by HSPIC include the development of the *Collaboration and Consultation Protocol*, the HSPIC endorsed *Price Review Framework* and the current project examining accreditation and standards process.

In 2008 HSPIC endorsed the *Partnering in Progress* project to evaluate current partnerships across the health, housing and community sector. A series of workshops were held across Victoria with a total of 164 participants who represented 81 different partnerships.¹⁴ At the workshops participants completed the *VicHealth Partnership*

Analysis tool and provided feedback in the workshops. The feedback from participants strongly reinforced the need for partnerships between community sector organisations and government programs across Victoria, as participants believed that this would achieve improved integrated service delivery and enhanced client outcomes. In addition, participants identified that their individual agencies also obtained significant benefits from participating in partnerships.¹⁵

When considering new models of engagement VCOSS encourages government to consider the three key issues that were identified by participants in the *Partnering in Progress* report:¹⁶

- ❑ the need to link and connect existing partnerships to ensure that they are structured and coordinated at a regional level, with participants reinforcing the need for service planning across all levels of government and jurisdictions, particularly as CSOs are engaging in more and more arrangements of this type;
- ❑ the need for partnerships to have strong structures that are based on robust governance and clear decision-making, grievance and evaluation process; and
- ❑ partnerships present opportunities for new service delivery models as a result of improved coordination but they need to be adequately resourced to ensure better outcomes.

Following the *Partnerships in progress* report, HSPIC developed three *Partnership practice guides*:

- ❑ Guide 1: Preparing to partner;
- ❑ Guide 2: Commencing the partnership; and
- ❑ Sustaining the partnership.¹⁷

These three guides are designed to provide information, tools and resources to staff in the health, housing and community services sector and government departments.

12.5 The length of service agreements and contracts should reflect the length of the period required to achieve agreed outcomes rather than having arbitrary or standard contract periods.

To best promote a focus on outcomes, VCOSS contends that there is a value in longer fixed period contracts. In Victoria, there has been work undertaken over many years to achieve three year funding agreements with some departments such as the Department of Human Services. The length of contract was advocated by the sector to offer surety of funding over a longer period than the traditional one year funding period. There is flexibility within these contracts to vary the agreements as issues emerge which require a different approach or additional work. If there is no agreed time frame, VCOSS is concerned that there may be a move back towards shorter term agreements which do not promote an outcomes based approach.

12.6 When entering into service agreements and contracts for the delivery of services, government agencies should develop an explicit risk management framework in consultation with providers and through the use of appropriately trained staff:

- allocating risk to the party best able to bear the risk; and**
- establishing agreed protocols for managing risk over the life of the contract.**

VCOSS supports the development of risk management frameworks. As noted in the *Draft Report*, changes in the delivery of community services toward an outsourced delivery model have transferred greater risks to CSOs while increasing accountability requirements. While the application of new risk management business strategies in government funding agreements has reduced the risk exposure of governments to risks in service delivery some extent, it has been problematic for the delivery of community services.

Current risk management practices that are based on outputs in precise terms within set timeframes are problematic in cases of health, community and family services where outcomes are dependent on relationships rather than technical outputs.¹⁸ This issue is further exacerbated in the shift toward more preventative approaches in service delivery away from technical outputs.

These issues are further exacerbated by the complexities that CSOs are now facing in being contracted to deliver services through increasingly sophisticated governance arrangements, including networks and cross-disciplinary approaches, for example the Child FIRST model introduced in Victoria in 2007. Government risk management must recognise the complexity of what government is asking the CSO sector to achieve within highly complex service delivery arrangements. Government needs to move to modern thinking around risk management approaches to better recognise the challenges that CSOs face in solving long-term, complex social problems.

12.7 Australian governments should urgently review and streamline their tendering, contracting, reporting and acquittal requirements in the provision of services to reduce compliance costs. To reduce the current need to verify the provider's corporate or financial health on multiple occasions, even within the same agency, reviews should include consideration of:

- development of Master Agreements that are fit-for-purpose, at least at a whole of- agency level; and**
- use of pre-qualifying panels of service providers.**

VCOSS strongly agrees that Australian governments need to urgently review and streamline tendering, contracting, reporting and acquittal requirements to reduce compliance burden and costs.

In Victoria, HSPIC is leading on a number of projects that could inform this review process. One project is working towards streamlining quality standards and accreditation which will result in CSOs only having to undertake one process, rather than multiple processes if they receive funding from multiple divisions of the DHS. In addition, CSOs that are funded below a specified level, will not have to participate in the full accreditation process. Rather they will undertake a streamlined desk-top review process that is reflective of their minimal funding so as not to take significant resources away from direct service delivery. HSPIC is also examining the possibility of whole-of-government funding and service agreements for CSOs. This would not only reduce complexity and compliance requirements but would also increase regulatory consistency. VCOSS would support similar processes at a national level.

BUILDING STRONGER, MORE EFFECTIVE RELATIONSHIPS FOR THE FUTURE

13.1 Compacts between Australian governments and the sector must be supported by well documented plans of action, including at agency level, if appropriate, and supported by practical measures including monitoring and evaluative processes that give concrete expression to the proposed relationship.

VCOSS supports the development and implementation of a compact between the Australian Government and the not for profit sector. We endorse the ACOSS response to this recommendation.

13.2 The Australian Government should establish an Office for Not-For-Profit Sector Engagement within the Prime Minister's portfolio, for an initial term of five years. The Office would support the Australian Government in its efforts to:

- implement sector regulatory and other reform and the implementation of the Government's proposed compact with the not-for-profit sector;***
- promote the development and implementation of the proposed Information Development Plan;***
- initially fund and oversee the establishment of the proposed Centre for Community Service Effectiveness;***
- implement the proposed contracting reforms in government-funded services***
- act as a catalyst for the promotion and funding by government agencies of social innovation programs; and***
- facilitate stronger community and business collaboration.***

The Office should, through the relevant Minister, report publicly on an annual basis on its achievements.

VCOSS supports the recommendation to establish an Office for Not for Profit Sector Engagement within the Prime Minister's portfolio to drive the coordination and implementation of policy priorities for across whole-of-government. VCOSS endorses the ACOSS response to this recommendation.

Given this Office would have a significant task leading and coordinating the reform agenda, it is vital that the Office develop an implementation strategy, in consultation with the community sector, with a clear timeframe for achieving milestones, with monitoring and evaluation processes.

OTHER ISSUES

Competitive neutrality

VCOSS is concerned that the analysis of competitive neutrality and access to taxation concessions does not adequately capture the complexity of the issue for community sector organisations. VCOSS appreciates this issue will be explored in more detail by the Henry Review but contend that further consultation with CSOs is vital before the Productivity Commission's report is finalised.

Limited funding means that many agencies rely on FBT exemption to attract qualified staff. Loss of this exemption would have significant implications for many organisations and their ability to attract staff and maintain service provision without a significant funding increase. This would require significant commonwealth and state negotiations and some agencies have reported to VCOSS a concern that government funding would not cover the shortfalls. In addition, the suggestion that additional government funding would address any shortfall if FBT exemption was removed, does not address the issue for agencies that receive no government funding or which rely heavily on philanthropic funds or donations. There is little discussion about how these organisations would fund the loss of salary packaging. VCOSS believes that the Productivity Commission's final report needs to fully examine these issues and consider the impact on the viability of NFP organisations if there is any change to FBT.

Portable Long service Leave

As outlined in the *Draft Report*, the community sector faces long-term pressures on attracting and retaining a skilled workforce, and a wide variety of strategies are required to deliver an experienced workforce into the 2020s and beyond. VCOSS believes that the introduction of a portable long service leave (PLSL) scheme is potentially one of those strategies at a state level and there is potential to explore it as a national strategy. PLSL would enable community sector workers to work for more than one employer in the community sector without losing entitlements to long service leave. Workers would qualify for long service leave based on their service to the community sector rather than the one employer. The aim is to retain skilled staff within the sector.

VCOSS, and many other sector peak organisations and agencies, support the principle of portable long service leave for community workers in Victoria. The Victorian Government has made a commitment to establish a Portable Long Service Leave (PLSL) scheme which will cover the vast majority of CSOs in Victoria. In 2008-09, the community sector has been in discussions with the Department of Human Services about the development of an appropriate PLSL model for Victoria. The sector has provided consistent feedback about the need for a scheme that is viable and sustainable for the community sector from a financial and administrative perspective, as well as improving employee entitlements and improving employee retention. Concerns have been raised in the sector about increased costs and the administrative complexity of the model proposed by government and further negotiations are now underway.¹⁹

VCOSS would support exploration of PLSL at a national level, particularly given the recent tabling of PLSL legislation in the ACT. We highlight the need for governments to offset the additional costs of PLSL in funding arrangements to support CSOs implement this workforce strategy.

APPENDIX 1: VCOSS RESPONSE TO THE PRODUCTIVITY COMMISSION'S *ISSUE PAPER*: MEASUREMENT FRAMEWORK

This submission to the *Issues Paper* was prepared by VCOSS with pro bono support from Regina Hill Effective Consulting Pty Ltd and Effective Philanthropy Pty Ltd.

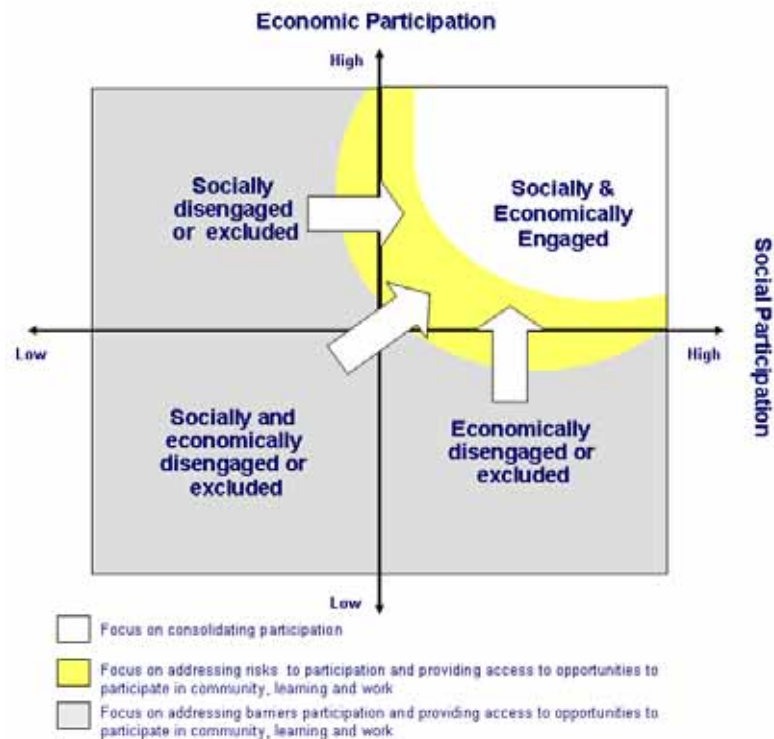
Underpinning principles: a framework to understand the contribution of CSOs

This section outlines a number of concepts that VCOSS believes are critical to understanding the work of Community Sector Organisations. These concepts underpin the discussion of measurement (Section 2) and improving the efficiency and effectiveness of the sector (Section 3).

Understanding the work of CSOs

At a fundamental level, CSOs work to promote the socioeconomic wellbeing of Australians by assisting and supporting people to participate in the community both socially and economically.

Figure 2 – Conceptual view of the different ways that CSO's contribute to the wellbeing of Australians



As noted in the Productivity Commission's *Issues Paper*, the government is committed to an active policy of social inclusion to ensure the economic and social participation of

all Australians. Applying the terms of the government's social inclusion agenda, CSOs work with Australians to help ensure that they have the capacity, capability and opportunity to:

- ❑ learn - participate in education and training;
- ❑ work - participate in employment, unpaid or voluntary work including the provision of family and carer responsibilities;
- ❑ engage - connect with people, use local services and participate in local cultural, civic and recreational activities; and
- ❑ have a voice - influence decisions that affect them.

Many CSOs also advocate for social change to improve opportunities for social inclusion at a systemic level.

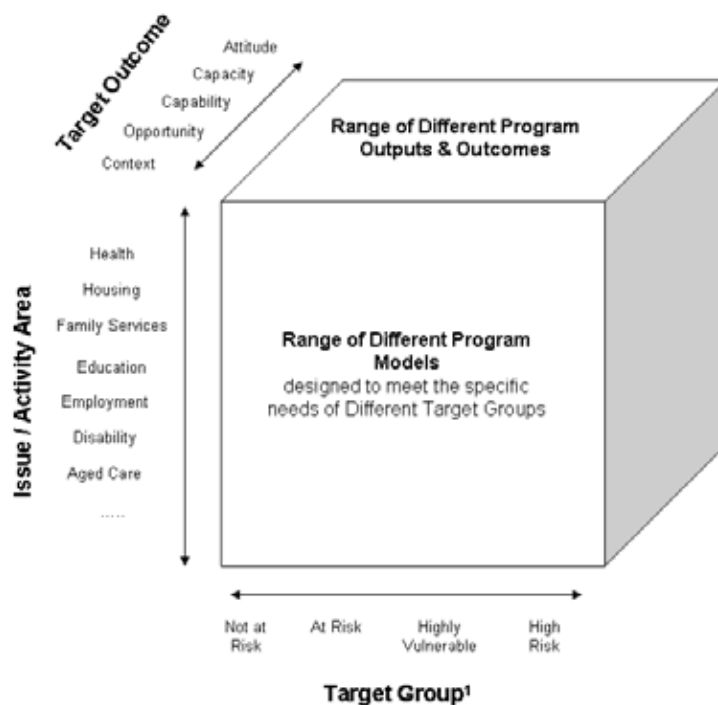
For those CSOs providing services to individual clients (sometimes called participants), they may work on the following domains (or change levers):

- ❑ aspiration – their life goals and aspirations and belief in their capacity to influence or control their future;
- ❑ capacity – their underlying capacity to engage in community, learning or work based on factors such as health, housing and home stability, transport, family issues etc;
- ❑ capability – their underlying skill base (including personal skills, general life management skills, basic literacy and numeracy skills etc) and support network (including both personal and professional support service networks) affecting their ability to engage in community, learning or work and to influence decisions that affect them;
- ❑ opportunity – to participate in community, learning or work and to influence decisions that affect them; and
- ❑ context – the community or regulatory context in which the participant lives and the effect that has on the above factors.

The specific outputs and outcomes that individual CSO's seek to achieve vary depending on (as seen in Figure 3 below):

- ❑ the target group that they are working with;
- ❑ the issue / activity area that they are working in; and
- ❑ the type of intervention / program model that they are applying.

Figure 3 –Understanding the underlying dynamics that drive diversity in the community sector

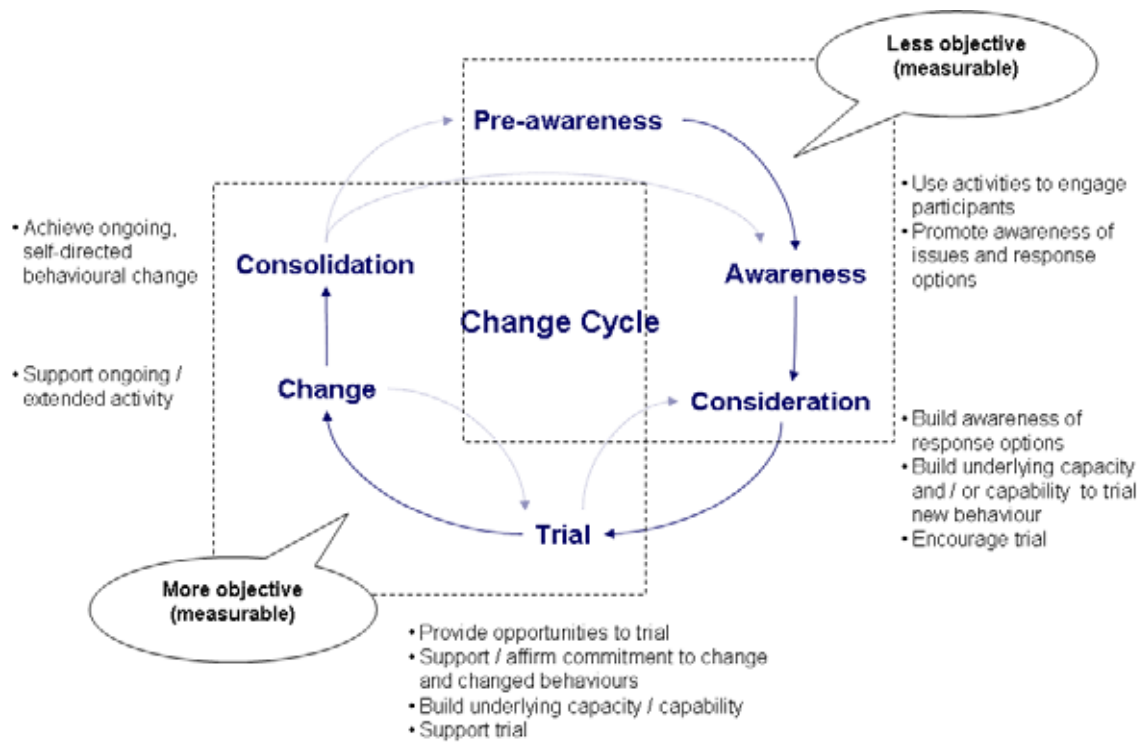


Note (1) Target Group categories based on those used in *Vulnerable Youth Framework Discussion Paper: Development of a Policy Framework for Victoria's Vulnerable Young People*. (Victorian Government, August 2008)

In order to understand and measure the contribution that CSOs make and to assess the relative effectiveness and efficiency of what they do, VCOSS believes that it is important to understand the effect that these differences in focus have. Target outputs and outcomes vary by issue and/or activity area. Within a given issue area, program design, target outputs and target outcomes will usually vary depending on the target group and what stage in the 'change cycle' the program is working on (the 'change-cycle' is illustrated in Figure 4). As a general rule, the further the movement around the 'change cycle' a program or intervention covers, the more measurable the change.

Figure 4 - Understanding the “change cycle” and how it impacts measurement

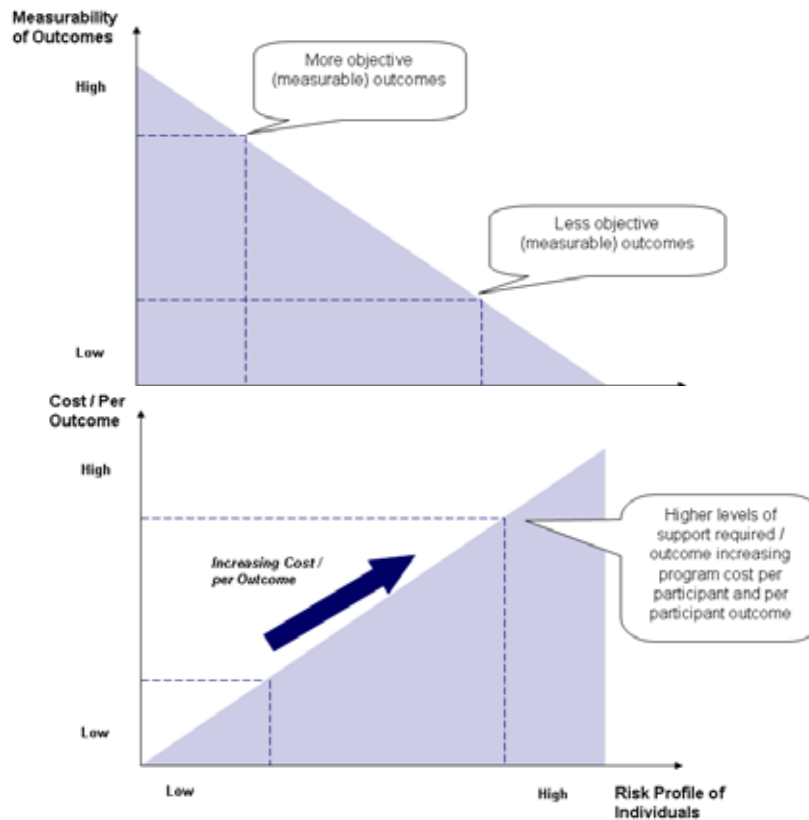
(Note the principles applied in this diagram can be applied equally to cover changes in individual or group status / behaviour or policy or system based changes relating to advocacy based activity).



Programs targeting higher risk groups will often focus more strongly on the first half of the ‘change cycle’, that is, earlier stage changes in attitude, capacity and capability which are required to deliver more objective changes in social and economic participation. Those changes are critical to clients being able to achieve the higher order changes covered in the second half of the ‘change cycle’, but, they are often harder to measure.

In many cases, the capacity of higher or more complex need clients (for example the long-term unemployed) to move around the ‘change cycle’ will be less than that of lower need or less complex clients (for example, the short-term unemployed). As a result, fewer clients will tend to move as far around the cycle, and they will often tend to require higher levels of support and longer timeframes to do that.

Figure 5 - Understanding the relationship between risk, measurability and cost in a CSO context



These concepts have implications for both the measurement and funding of CSO programs and services. Figure 5 above illustrates the inverse relationship between the risk profile of individuals and the measurability of outcomes. It also highlights the increase in cost per outcome where individuals have higher risk profiles.

If programs and services are measured or assessed against the same output and outcome measures and targets, programs working with higher or more complex need groups will tend to look less effective and less efficient than those working with lower need or less complex groups. If funding levels are set without reference to a target group, then programs working with higher or more complex need groups are often likely to be under funded. The funding will not take into account the higher support needs of clients and the longer timeline required to deliver program outcomes.

Care therefore needs to be taken when designing measurement frameworks and funding allocation and service provider selection processes to ensure that appropriate consideration is given to the relative need or risk profile of the target group receiving the service. Client profile needs to also be considered in determining program costs and output and outcome parameters. Care also needs to be taken when interpreting or comparing program performance measures to make sure that like to like comparisons are being made.

Measurement and funding systems, therefore, need to be designed so that programs can be segmented based on target group and intervention model. Comparisons can then be made on a like for like basis.

Consideration also needs to be given to the resources required to support the collection and processing of data that will assist the implementation of measurement

and evaluation models. Information technology (IT) system capacity and capability constraints within the CSO sector (including resource, data management, IT and skill gaps) inhibit the ability of many CSOs to collect, process and analyse program data. The key issue is not the lack of desire to monitor, track and learn from program outcomes, it is the ability to do that in an informed, efficient and effective way. This issue is also addressed in Section 3.

Understanding financial and capacity development constraints

In considering how to measure the contribution and improve the efficiency and effectiveness of the community sector, it is important to understand the financial constraints that inhibit the ability of CSOs to invest in capability and system based developments and productivity improvements.

Most CSOs operate as not for profit organisations and rely predominantly on government funding, philanthropic funding and general fundraising to finance their activity. Most government and philanthropic funding is program based, with no or limited allocation being made within that funding to cover non-program or overhead costs, such as evaluation. This often results in under-investment in those areas. This is illustrated in Figure 6.

Figure 6 - The implications of existing CSO funding structures on investments in productivity improvement and program innovation

Revenues	Most funding is program based and is provided below the fully loaded cost of running the program
Less Costs	
Profit / Loss	As a result most CSO's operate at or near breakeven
Less Re-investment	They therefore do not have funds to re-investment in the operation of the business to support improvements in operational efficiency and productivity
Reserves	

As price takers, most CSOs are not in a position to influence the price that is set, particularly by government, for their services. Unlike for-profit businesses, CSOs are not able to build a profit margin into their activity to support reinvestment in their operations to improve productivity or invest in program innovation. In many cases CSOs are forced to stretch already limited resources to cover core activity and / or to rely on one off grants, pooled grants or their own investment income to invest in infrastructure, system or capability based improvements to improve productivity or to pilot innovative program design and implementation.

VCOSS last year commissioned The Allen Consulting Group to undertake an analysis of the ability of CSOs to implement further productivity improvements. The report found that:

‘further productivity gains are unlikely in the sector without jeopardising service delivery outcomes. This is because CSOs have already made significant productivity gains in recent years and further improvements will be very difficult to achieve without the funding to do so. Increasing productivity requires up front investment. CSOs are not adequately funded to enable them to invest in innovation and this impedes their ability to improve delivery of services and increase their productivity. Unlike productivity gains in the rest of the economy,

productivity gains in the community services sector are difficult to achieve given the labour intensive, people-oriented nature of the service.²⁰

If the CSO sector is to make the investments that are required to drive ongoing improvements in capability, infrastructure and productivity then current funding models need to be reviewed and new and innovative ways found to fund investments in those areas.

2. Measuring the contribution

Summary of recommendations

1	Maintenance of NFP National Accounts	Maintain and develop the NFP Satellite Accounts.
2		Focus immediate investment on improving data collection and dissemination to better inform policy setting, program design and delivery, rather than focusing on reviewing the methodology applied to the (financial) value of the CSO (NFP) sector.
3	Improvement of Basic Data Collection	<p>Review existing ABS and government data collection and budgeting processes to support the collection and dissemination of data that allows government and the community sector to track:</p> <ul style="list-style-type: none"> ❑ community needs based on a standard set of key socioeconomic (community wellbeing) indicators (as a proxy for CSO outcomes); and ❑ CSO activity (including what organisations are working on what issue areas with what target groups) <p>by regional (Statistical Local Area or postcode) area on a periodic basis.</p>
4	Adoption of a National Socioeconomic Indicator (Wellbeing) Reporting Framework	Adopt a set of key socioeconomic (community wellbeing) indicators (such as those used in the Community Indicators Victoria Data Mapping System (Victoria), Sustainable Development Indicators (United Kingdom), Social Report (New Zealand) or like systems etc), and report on them at a national and regional level on an annual basis. Disseminate that data using an IT system that has the capacity to allow users to drill down to track performance against those indicators at a regional level.
5	Maintenance of Community Indicators Victoria	Invest in the maintenance and extension of the Community Indicators Victoria Data Mapping System to support community based planning, program coordination and delivery.
6	Alignment of Government Reporting	<p>Review existing federal, state and local government program reporting requirements and systems to:</p> <ul style="list-style-type: none"> a) move towards the adoption of a common set of output and outcome measures for like programs; b) streamline data collection and reporting requirements (including the adoption of common IT packages or systems); and c) reduce duplication in cross-government and cross-departmental reporting.
7	Investment in IT	Invest in the IT infrastructure, data management systems and skills required for CSOs to collect, process and analyse program data for measurement purposes, at the same time as streamlining government reporting and quality processes.
8	Alignment of government boundaries	Align federal, state and local government boundaries to support the coordination and direction of Government policies and programs and support improved data collection.

9	Proposed Measurement Framework	Revise the measurement framework set out in the Commission's <i>Issue Paper</i> to: <ul style="list-style-type: none"> a) make provision to categorise activity by issue area and target group; and b) review the categorisation of outcome and impact parameters.
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Overview of issues

VCOSS believes that there are a number of different reasons for wanting to understand the contribution that CSOs (and NFP organisations more generally) make:

- ❑ at a macro (national accounts) level there is value in understanding the role that CSOs play as an industry in the operation of society;
- ❑ from a policy and program setting perspective there is value in understanding the role that CSOs play in addressing community needs and the relative effectiveness of different intervention models. This is important so that both government policies and programs and CSO operations are based on good practice, and are structured to leverage existing CSO networks, minimise duplication, maximise service coordination and align activity to address community needs;
- ❑ from a service delivery perspective there is a need for government to be able to evaluate the relative effectiveness of different organisations to inform service provider selection processes; and
- ❑ at a more micro level there is value in understanding the impact that individual organisations and programs make to addressing specific issues, to understand what works and to identify and promote effective practices that lead to ongoing improvements in program design and delivery.

Each of these reasons raises different considerations and challenges when it comes to trying to measure and value the contribution of the CSO sector as outlined in Figure 7 below.

Figure 7 - Different reasons for measurement

Purpose	Service Design & Delivery	Funding Allocation & Service Provider Selection	Government Policy Setting & Program Definition	National Accounts
Description	<ul style="list-style-type: none"> • Measure individual program effectiveness and efficiency • Inform program design & development 	<ul style="list-style-type: none"> • Compare alternative service providers 	<ul style="list-style-type: none"> • Assess community needs • Identify service & funding gaps • Define policy responses • Design government programs 	<ul style="list-style-type: none"> • Assess financial contribution to National Accounts • Monitor industry status against key economic indicators
Challenge	<ul style="list-style-type: none"> • Ability to measure less objective outcomes • Ability to compare outcome measures 			<ul style="list-style-type: none"> • Ability to aggregate output and outcome measures
	<ul style="list-style-type: none"> • Ability to segment activity by target group & activity to be able to compare like for like programs 	<ul style="list-style-type: none"> • Ability to segment activity to be able to compare alternative providers on a like for like basis 	<ul style="list-style-type: none"> • Ability to segment activity to compare alternative policy / program interventions 	<ul style="list-style-type: none"> • Ability to value contribution
	<ul style="list-style-type: none"> • Ability to access data to assess unmet community needs & design & deliver programs effectively 		<ul style="list-style-type: none"> • Ability to access data to assess community needs & design policy & program responses 	

It is important to be clear about the reasons why an assessment of the contribution of the CSO sector is being undertaken when thinking about what needs to be measured and how best that can be done. What this information is to be used for, and how it will be interpreted, makes a significant difference to what and how things need to be measured.

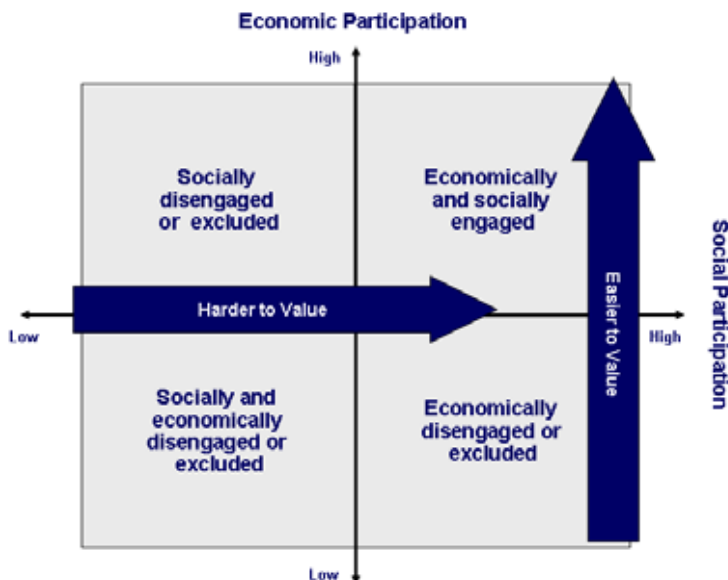
It is also important to differentiate between measuring the contribution that the sector makes, based on the services that it delivers and the outputs and outcomes that are delivered through those services, and valuing that contribution in financial terms.

There are a number of factors that make measuring and valuing the contribution of the CSO sector and assessing the relative effectiveness and efficiency of CSO activities challenging. For example, CSOs provide a range of services that are designed to deliver a mix of different outcomes, some of which are more readily measurable than others. It is more difficult to measure the less tangible (more subjective) outcomes associated with CSO activities. In addition, capacity and capability constraints in the CSO sector (including resource, data management and IT and skill gaps) inhibit the ability of many CSOs to collect, process and analyse program data.

These challenges make it difficult to put in place a framework that will measure and value the full suite of outcomes that CSOs deliver in a consistent way that would allow those measures to be aggregated across the sector. Many CSO activities do not fit within a standard “market” framework and so do not automatically attract a price that can be used to value the service.

As a general rule it is easier to measure and value outcomes relating to (vertical) shifts in economic participation. It is harder to measure (horizontal) shifts in social participation (see Figure 8).

Figure 8 - Measuring economic versus social participation

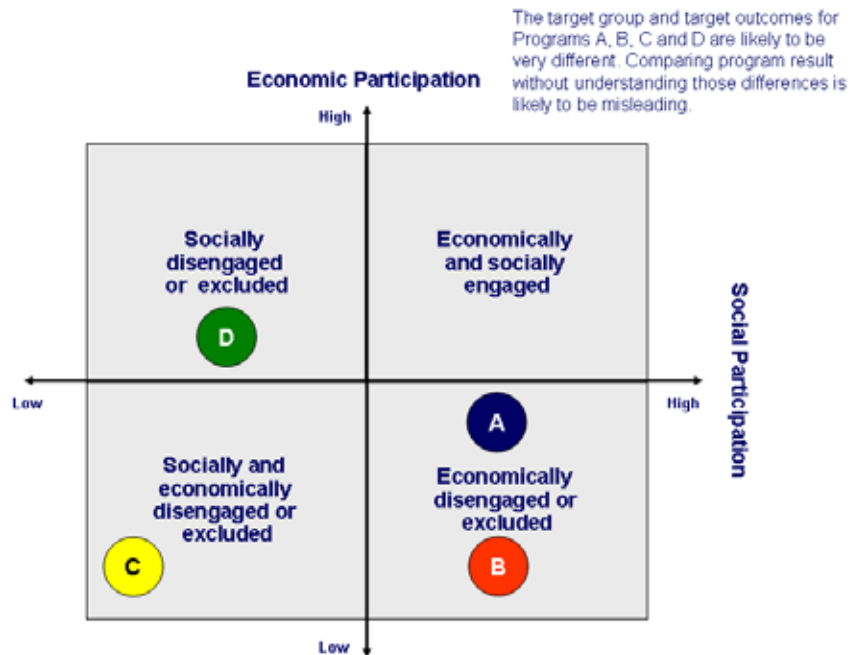


Given that most CSOs are price-takers, the valuation of CSO services at cost (while arguably the most sensible proxy from a national accounts perspective) is not necessarily reflective of the real value of the services that they deliver. As a result, it is difficult to value the full economic and social contribution of the CSO sector.

It is also difficult to compare the effectiveness and efficiency of CSO activities. Differences in target group can result in like programs having very different target outputs and outcomes. Similarly, programs working with like target groups in the same issue area can seek to deliver different outcomes depending on the specific change lever that they are working on (see detailed discussion of these concepts in Section 1). When comparing program results, care needs to be taken to make sure that like for like comparisons are being made. In the absence of effective target group and program based segmentation this can be difficult to do.

It is important to recognise the differences between programs operating in different “participation quadrants” and in different spaces within each quadrant, as seen in Figure 9 below.

Figure 9 - Making “like for like” comparisons



The need to make sure that like for like comparisons are being made is particularly true when applying financial valuation methodologies such as a Social Return on Investment (SROI) analysis.

SROI uses standard discounted cash flow measures to value the economic and social return of activities taking into account independently generated revenue, taxation contributions generated through employment, reductions in expenditure on public services and welfare. It is most commonly (and, it is submitted, appropriately) applied to social enterprise based programs that seek to combine the generation of income with a social outcome.

Although the SROI methodology seeks to value social participation, health and wellbeing based benefits associated with such programs the challenge associated with doing that means that those benefits tend to value them based on reductions in the cost of support service usage.

The limited ability to value improvements in social participation, health and wellbeing, and the fact that improvements in economic participation are only valued when the taxation returns offset welfare and service expenditure, have significant implications when using the analysis to compare the effectiveness and efficiency of different programs.

For example, an early stage intervention program that works with a high risk target group that achieves changes in the first half of the change cycle (on attitude, capacity and capability) will tend to show lower returns than a latter stage program that is working on the second half of the change cycle translating those outcomes into employment.

Both types of program are important (indeed the latter type of program would not be possible without the former one) but if the outcome of the SROI analysis is not

interpreted with care, there is a risk that the former program will be seen as being less effective and efficient than the latter one and as a result potentially be given less priority from a policy and funding perspective.

When interpreting SROI results it is particularly important to understand the differences between programs operating in different “participation quadrants” and in different spaces within each quadrant.

Given the complexity in interpretation it is strongly recommended that SROI analysis only be applied to enterprise based intervention models.

Given the challenges associated with valuing the social contribution of the CSO sector, it is recommended that the Productivity Commission not focus on reviewing the methodology applied to value the sector at a macro (national accounts) level (i.e. valuing the contribution of the sector) but instead focus on improving the efficiency and effectiveness of the sector by improving data collection and dissemination to improve policy setting, program design and delivery. This includes not only the development of a framework to inform how CSOs can measure the outputs and outcomes of their programs but also the collection of data that will support government policy and program development and CSO program design and delivery.

Current data collection and dissemination systems do not allow government or the sector to map service provider networks, service delivery activity or funding on a regional basis (i.e. there is no simple way of identifying who is working in a geographic area on what issue areas with what target groups). Nor is there a readily accessible system that provides government or the CSO sector with data on community needs (based on key socioeconomic indicators) by geographic region other than aggregated Indices such as the Socioeconomic Indexes for Areas (SEIFA) Indices or tools such as those provided by Community Indicators Victoria.

Differences in federal, state and local government boundaries add to the complexity of mapping funding allocations. Even at a state level, different government departments have developed different regional boundaries. In Victoria for example, Department of Human Services (DHS) regional boundaries do not match the Department of Education and Early Childhood Development’s boundaries. VCOSS acknowledges that there has been work undertaken to align regions between some departments and we support the further progress of this work.

The absence of this data limits the ability of both the Government and CSO organisations to:

- identify and leverage local CSO networks;
- identify gaps in service availability / delivery;
- understand total government and non-government (philanthropic and corporate) investment by target group and issue area; and
- drive effective and efficient policy setting, program design and program delivery.

VCOSS contends that these data gaps significantly inhibit the ability of government and the community sector to operate effectively.

In order to address these gaps and improve the effectiveness and efficiency of both the government and CSOs there is a real need to focus on improving basic data collection. In particular, there is a need to focus on:

- ❑ improving the accessibility of data to assist governments and CSOs identify community and target group needs at a regional (SLA or postcode) level;
- ❑ improving the collection and dissemination of data at a regional level regarding:
 - ❑ what activity is being undertaken by the CSO sector; and
 - ❑ what funding is being invested (including both government and non-government funding); and
- ❑ tracking changes in community needs, activity and investment over time.

VCOSS believes that investment in improving data collection and dissemination will show significantly higher returns than measures focused on attempting to place a financial value the contribution of the CSO sector.

Recommendations

1. Maintain NFP Satellite Accounts

VCOSS believes there is merit in valuing the contribution of the CSO sector at a macro (industry) level as part of the National Accounts and recommends that the NFP Satellite Accounts continued to be maintained and developed over time.

2. Focus on improving data collection and dissemination rather than valuation

To improve the effectiveness and efficiency of both the government and community sectors, it is recommended that the government place priority on improving data collection and dissemination to better inform policy setting, program design and delivery rather than on reviewing the methodology applied to value the sector at a macro (national accounts) level.

3. Strengthen data collection systems and processes

It is recommended that the Productivity Commission review existing ABS and government data collection and budgeting processes to support the collection and dissemination of data that allows the government and the community sector to track:

- ❑ community needs based on a standard set of key socioeconomic (community wellbeing) indicators;
- ❑ CSO activity (including what organisations are working on, what issue areas, and with what target groups;

by regional (Statistical Local Area or postcode) area on a periodic basis.

In doing this, it is recommended that the Productivity Commission review existing data collection processes to incorporate at least the following information:

Figure 10: Minimum funding and activity based data collection requirements

CSOs	Government	Philanthropy
Income pa Revenue pa Profit / Loss pa Reserves	Funding allocation pa	Funding allocation pa
Funding source breakdown	Funding source	Recipient organisation
Staffing numbers	-	-
Staff breakdown by qualification level	-	-
Service delivery locations	Geography	Geography
Target group(s) Target group numbers	Target group(s)	Target group(s)
Activity / issue area	Activity issue / area	Activity issue / area

4. Develop and publish a reporting framework of a standard set of socio-economic (wellbeing) indicators

VCOSS recommends that the federal government adopt a set of key socioeconomic (community wellbeing) indicators such as those used in the Community Indicators Victoria Data Mapping System, (Victoria), Sustainable Development Indicators (United Kingdom), Social Report (New Zealand) or like systems and report on those indicators and a national and regional level on a annual basis.

It is further recommended that this data be disseminated using an IT system that has the capacity to allow users to drill down to track performance against those indicators at a regional level. The adoption of such a reporting framework and dissemination system would assist government and the CSO sector to better target and coordinate policy and program activity and would provide a proxy for understanding the impact of policy and program investments at an aggregated (cross-sector) level over time.

It is recommended that those indicators be selected with reference to international standards in order to allow for international benchmarking and comparison.

5. Invest in the maintenance and extension of the Community Indicators Victoria data mapping system

VCOSS recommends that the Australian Government invest in the maintenance and extension of the regional data mapping activity and reporting system such as that currently delivered by Community Indicators Victoria. This would involve a review the possibility of extending that system to support the development of the reporting system referred to in recommendation four above.

6. Standardise Government program reporting and data collection

VCOSS believes that the most effective way to support the adoption of common output and outcome measurement in the community sector is through existing government reporting frameworks.

Currently there are significant inconsistencies in government reporting requirements. In many cases CSOs receiving program funding from different governments and / or

government departments are required to report on different parameters using different IT systems for the same program.

It is recommended that existing federal, state and local government program reporting requirements and systems be reviewed to:

- ❑ move towards the adoption of a common set of output and outcome measures for like programs;
- ❑ streamline data collection and reporting requirements (including the adoption of common IT packages or systems); and
- ❑ reduce duplication in cross-government and cross-departmental reporting.

7. Invest in IT infrastructure and data management systems and skills for CSOs

VCOSS recommends that the Government invest in IT infrastructure and Data Management systems and skills required for CSOs to collect, process and analyse program data for evaluation purposes. At the same time, streamlining government compliance requirements must remain a priority issues as outlined in section 3.6.

8. Align government boundaries

Variations in federal, state and local government boundaries make it difficult to track what government funding is being provided to a given community or region and how community wellbeing is impacted by investments in the community over time.

It is recommended that Council of Australian Governments (COAG) work to align federal, state and local government boundaries to better support the coordination and direction of government policies and programs and support improved data collection.

9. Revise the draft measurement framework (set out in the Productivity Commission's *Issue Paper*)

VCOSS acknowledges that there is value in developing a core set of specific output and outcome indicators that can be used by government and CSOs to monitor and evaluate CSO activity at a program and community level as part of the process of improving data collection and dissemination. However, it is important to recognise that any such set of output and outcome indicators will not be able to cover the full suite of outputs and outcomes that are delivered by CSOs and so will not measure the full contribution of the sector. Any framework of output and outcome measure that is developed must include the collection of data that allows CSO activity to be segmented based on issue area, target group and program type.

The measurement framework that has been developed by the Productivity Commission does not make provision for identifying target issue, target group or program type. As such, although it provides a framework to measure a limited set of output and outcome indicators at an aggregated (national accounts) level, it does not support the segmentation of CSO activity and as such does not provide a basis for like for like comparisons or analysis of that activity. As a result, the proposed framework does not provide an appropriate framework through which to:

- ❑ measure individual program effectiveness and efficiency;
- ❑ inform program design and development; or
- ❑ support the comparison of alternative service providers and support service provider selection or funding allocation.

Although the framework does provide a basis to inform government policy and program setting, the above gaps limit the ability of the framework to address the full needs of the government.

In order to strengthen the framework it is recommended that the Productivity Commission revise the current framework (and supporting data collection and management systems) to:

- ❑ make provision to categorise activity by issue area and target group;
- ❑ review the categorisation of outcome and impact parameters (or perhaps adopt a dual categorisation structure) to incorporate the higher order domain of change (attitude / aspiration, capacity, capability, opportunity and context) being targeted rather than the specific type of outcome being delivered (service, connection, advocacy, existence or consumption) that is being delivered. These change domains outlined in Section 1 include:
 - ❑ aspiration – their life goals and aspirations and their perceived capacity to influence or control their future;
 - ❑ capacity – their underlying capacity to engage in community, learning or work based on factors such as health, housing and home stability, transport, family issues etc.
 - ❑ capability – their underlying skill base (including personal skills, general life management skills, basic literacy and numeracy skills etc) and support network (including both personal and professional support service networks) affecting their ability to engage in community, learning or work and to influence decisions that affect them;
 - ❑ opportunity – to participate in community, learning or work and to influence decisions that affect them; and
 - ❑ context – the community or regulatory context in which the participant lives and the effect that has on the above factors.

The outcome categories and parameters identified in the current framework could readily be applied as sub-categories under the above headings.

VCOSS would welcome the opportunity to consult with the Productivity Commission in more detail on this alternative framework.

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¹ CSOs represent a significant sub-set of the NFP sector and can be defined as follows:

'Those organisations that are Not for Profit, rely on high levels of volunteerism, and broadly respond to welfare needs. CSOs work in related areas of health, education, employment and community services, amongst other industries. They comprise small informal community groups through to large incorporated organisations, and range in orientation from member-based consumer advocacy groups through to privately constituted but publicly-oriented service providers.' - J Barraket,

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³ PilchConnect, *Submission to Productivity Commission's study into Australia's not-for-profit sector*, June 2009, p. 11.

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⁷ Committee of Inquiry into the Definition of Charities and Related Organisations, *Report of the Inquiry into the Definition of Charities and Related Organisations*, June 2001.

⁸ Jobs Australia, VCOSS and ACOSS, *Charity Now: Redefining Charity Law for the New Millennium, Discussion paper and Recommendations for Reform*, 2006.

⁹ Association of Chief Executives of Voluntary Organisations (ACEVO), *Is it time up for Full Cost Recovery?*, UK, 2008.

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http://www.fullcostrecovery.org.uk/about_fcr/full_cost_recovery?section=48 (online), [Accessed 22 November 2009].

¹³ HSPIC, *Partnering in progress: Learnings from partnerships between community service organisations and the Victorian Department of Human Services*, forthcoming publication, 2009.

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¹⁸ D Green and M McClelland, 'Uncertainty, risk and children's futures', *Family Matters*, no 64, Autumn, 2003.

¹⁹ Further information about the Victorian process and sector responses can be found at <http://www.vcooss.org.au/what-we-do/community-sector/plsl.htm>

²⁰ The Allen Consulting Group, op cit, p.v.